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MONTHLY REGIONAL UPDATE

Sep 2020

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Regional Economic and Policy Developments in September

ASEAN
- ASEAN manufacturing PMIs have been more stabilized, though remain contract; yet to see concrete signs of recovery.

Lao PDR
- Moody’s downgrades government issuer rating by 2 notches to Caa2, changes outlook to “Negative”.

Myanmar
- Myanmar targets 6% GDP growth in FY2020-21 led by an anticipated increase in FDI inflows and election spending.

Vietnam
- Vietnam’s exports hit new high at USD26.5bn in August; promising growth outlook.
- Vietnam to halve its 2020 target growth range to 2.0-2.5% given weak consumption and modest recovery of exports

Cambodia
- Cambodia resumes international flights with several Asian countries; outlook remains negative given strict conditions.

Philippines
- A stronger peso would help to rein in inflationary pressure; more room to ease monetary policy.
- Philippines to launch *PhilSys* national ID with biometric information, improving access to the unbanked.

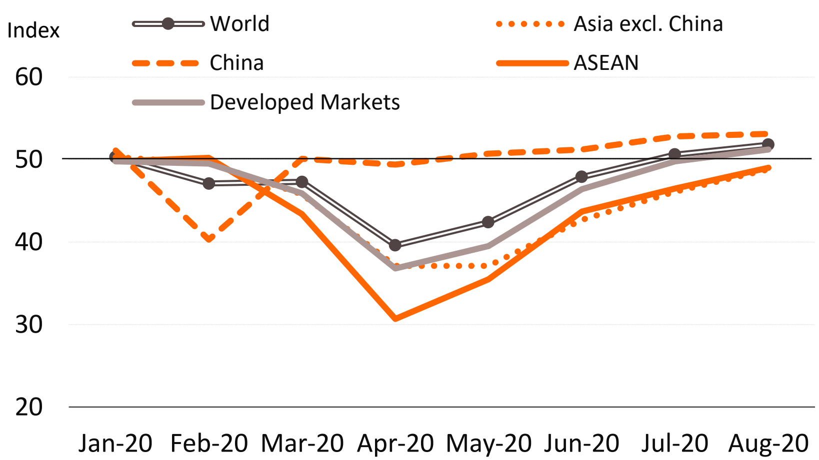
Indonesia
- Indonesian government adjusts 2020 target GDP growth to -1.1% to +0.2% due to larger downside risks.

ASEAN manufacturing PMIs have been more stabilized, though remain contract; yet to see concrete signs of recovery

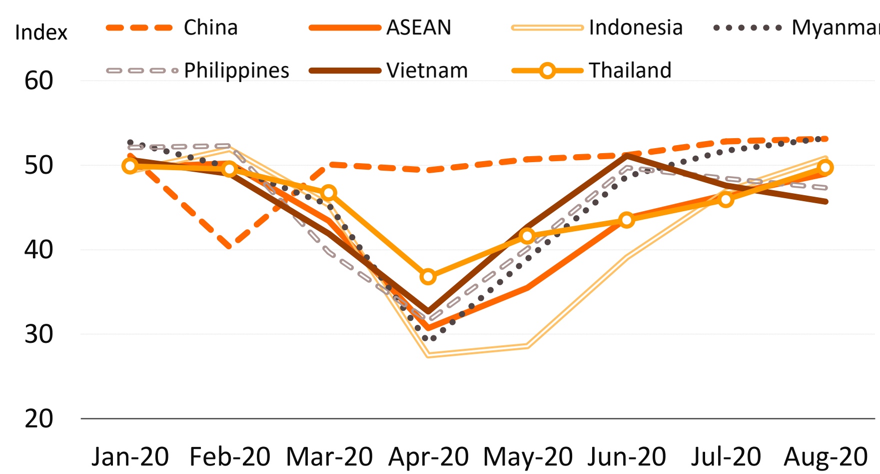
Krungsri Research's view

- **After a deep contraction in 2Q20, the ASEAN Manufacturing PMI, based on IHS Markit survey, has improved gradually to a 6-month high of 49.0 in August. The recovery is in line with that for overall Asia (excluding China) but still lags behind the global average.**
- **Myanmar and Indonesia are leading the improvement in the ASEAN index**. This is supported by recovering business conditions in the manufacturing sector as the two countries continue to relax lockdown measures. Output and new orders also expanded at a faster rate. These led to a mild improvement in the job market. However, we project the recovery has been driven by pent-up demand and reopening in some countries, which could be temporary given still-fragile consumption.
- **Countries which registered a drop in PMI readings are Vietnam and the Philippines, due to a resurgence of COVID-19 cases**. However, Vietnam has better conditions to support a recovery because it has had better success in containing the outbreak; the number of new cases has dropped from a daily average of 50 in the last week of July to single-digit since late-August.
- **Looking ahead, we see a mixed – and weak – recovery for the manufacturing sector across ASEAN. They would be dragged by (i) still-rising COVID-19 cases in the Philippines and Indonesia, and authorities in Vietnam has reinstated lockdown measures in some cities after a spike in new cases, (ii) weak external demand as global growth would remain sluggish, and (iii) high unemployment for an extended period, which would cap consumer spending for a longer period.**

IHS Markit Manufacturing PMI: World and region



IHS Markit Manufacturing PMI: China and selected ASEAN



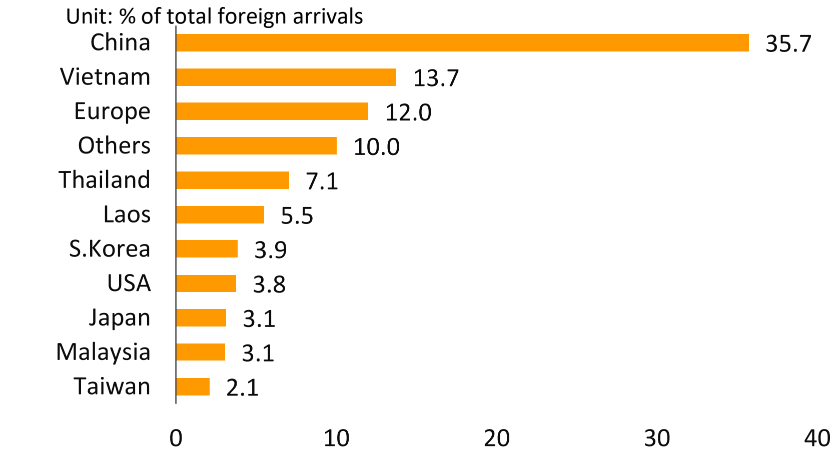
Source: IHS Markit, CEIC, Krungsri Research

Cambodia resumes international flights with several Asian countries; outlook remains negative given strict conditions

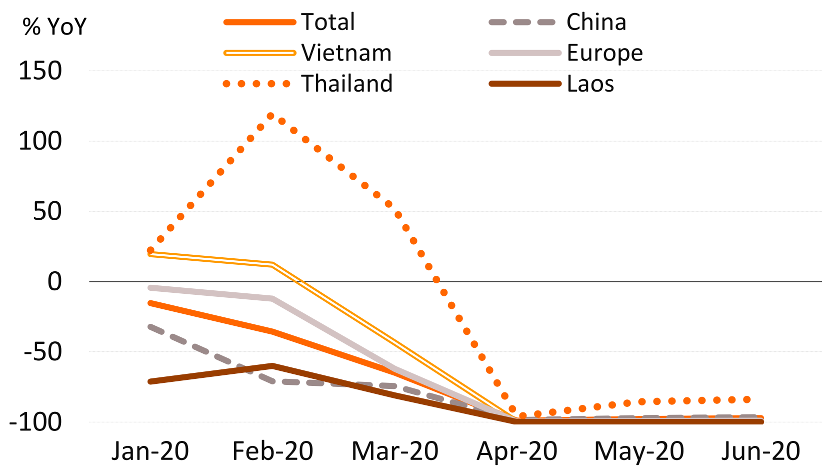
Countries resuming flights to/from Cambodia

Country	Start from
China*	3 September 2020
Japan	September 2020
Singapore	1 September 2020
Malaysia	1 September 2020

Share of top 10 foreign arrivals in Cambodia (2019, by country)



Top 5 sources of tourists in Cambodia



Note: * China will resume direct flights to Beijing from eight countries including Cambodia, Thailand, Greece, Denmark, Sweden and Canada from 3 September. (Reuters)

Source: Ministry of Tourism, Reuters, local news media, CEIC, Krungsri Research

Krungsri Research's view

- Cambodia is among the first ASEAN member countries to resume international flights since early September to/from several Asian countries including China, Japan, Singapore and Malaysia. **This move is not only critical to support economic recovery and for medical purposes, but also for people with a work and/or residence permit and for business travel**. To prevent a second wave from imported cases, all arriving passengers are subjected to a COVID-19 test and mandatory 14-day quarantine at their designated locations.
- The latest move by Cambodian authorities may help the tourism sector, by reopening to foreign arrivals. However, **there would be limited positive impact on the tourism sector, which will still shrink this year, because leisure travel is still not permitted.** The above-mentioned countries account for 44% of total tourist arrivals (pre-COVID-19) in Cambodia (China is the largest source with 36% share). To conclude, we expect only a small number of foreign arrivals in Cambodia over the next few months. Major reasons include (i) the 14-day mandatory quarantine for each trip, (ii) still-high risk of a second outbreak from imported cases, and (iii) changing consumer behavior, e.g. fear of travelling overseas as cases continue to rise globally, weaker purchasing power, and rising unemployment.

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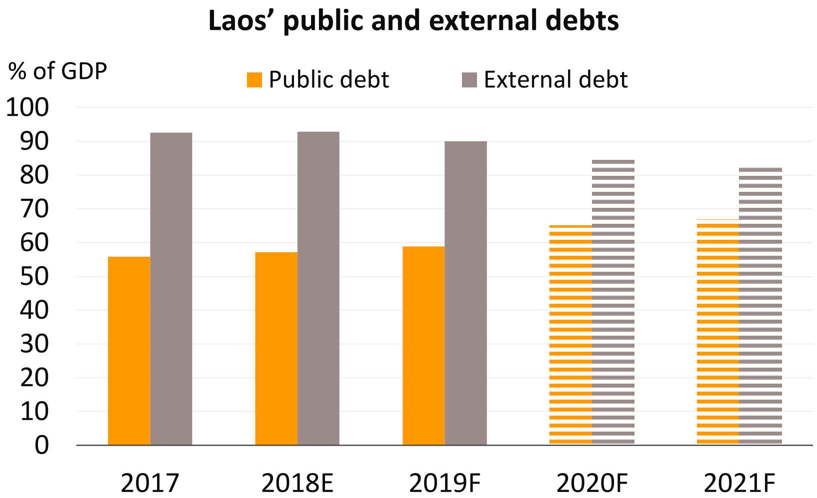
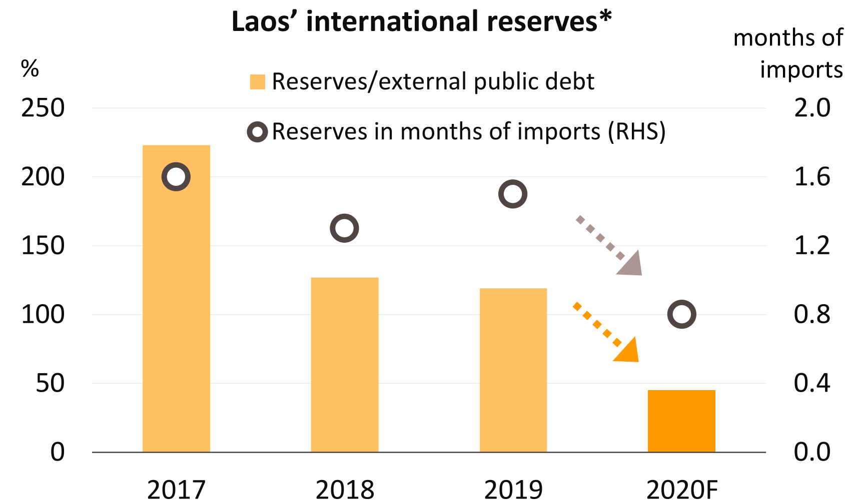
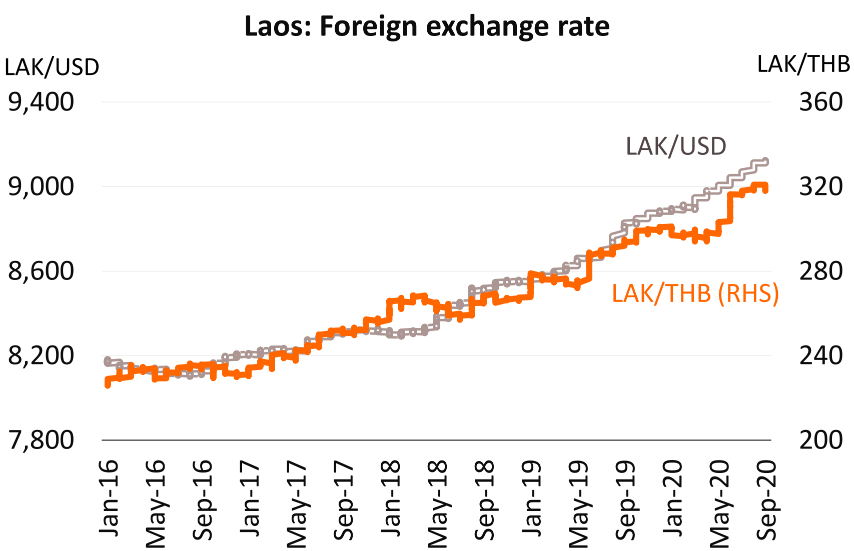
Lao PDR: Moody's downgrades the government's issuer rating 2 notches to Caa2, outlook changed to "Negative"







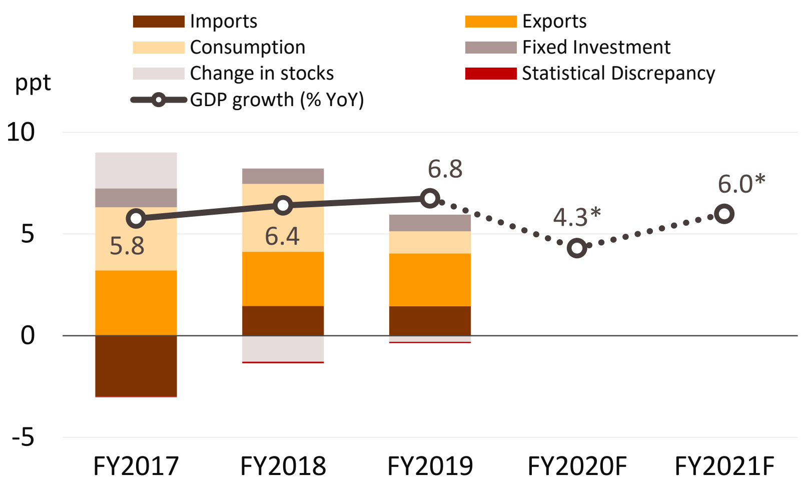
Note: * forecasted by the World Bank
Source: Moody's, the World Bank, CEIC, Krungsri Research

Krungsri Research's view

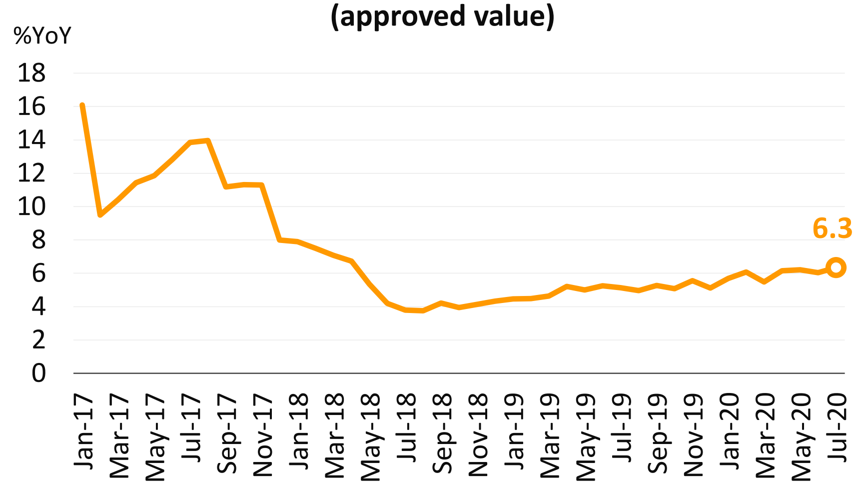
- On 14 August, Moody's Investors Service downgraded the Government of Laos' issuer rating to "Caa2" from "B3", and changed the outlook to "negative". That rating reflects Laos is facing severe liquidity stress, given sizeable debt repayment due this year and up to 2025, according to Moody's.
- **In our view, the main determinant of country conditions is the interplay between structural weakness and cyclical factors in the country.** Laos' economic fundamentals are weak, with relatively low government revenues, high public debt, high external debt, low foreign reserves, and high risk of debt distress. And recently, the cyclical factor triggered by the COVID-19 pandemic, has also dampened economic activities (weaker economic growth, more volatile FX rates, and rising inflation), which heightens country risks. Looking ahead, some improvement in the cyclical factors, e.g. easing COVID-19 impact, recovering exports of electricity, and FDI inflows in infrastructure and electricity generation, could help mitigate structural risks. Given the looming uncertainties, Laos needs to be more cautious of risks to external stability over the next few months.

Myanmar targets 6% GDP growth in FY2020-21, led by an anticipated increase in FDI inflows and election spending

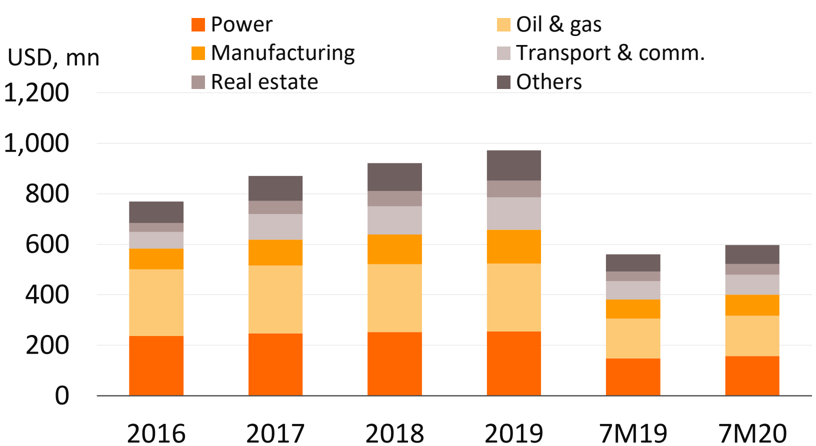
Myanmar: Contribution to real GDP growth (%)



Growth of cumulative FDI inflow to Myanmar (approved value)



Myanmar: FDI by industry



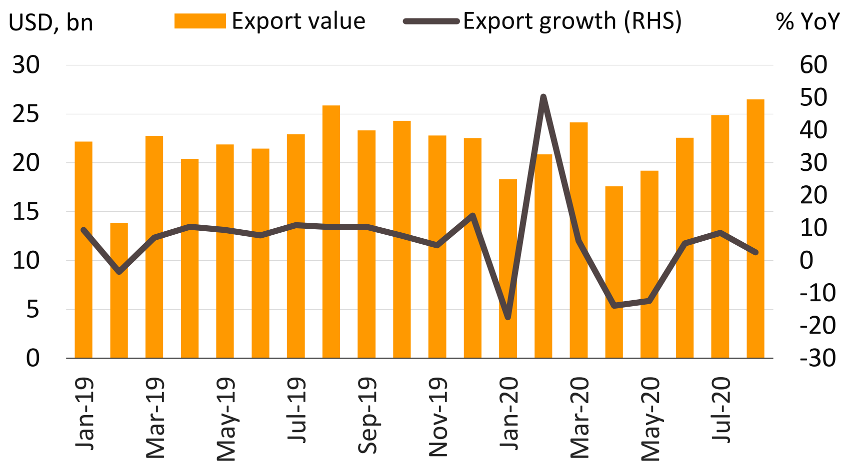
Note: * forecast by Myanmar's government
Source: Central Statistical Organization, CEIC, Krungsri Research

Krungsri Research's view

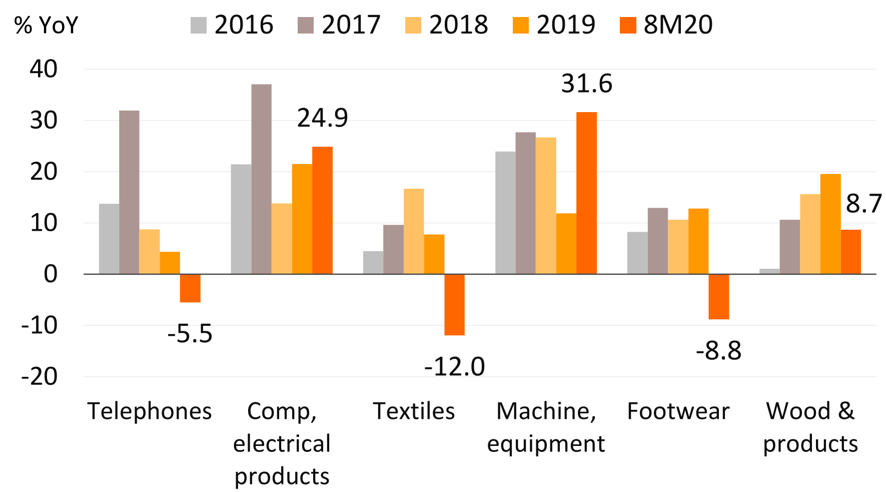
- Myanmar recently approved the National Planning Law for fiscal 2020-21. Under the law, **the economy is forecast to grow by 6% in fiscal year 2020-21 (October 2020-September 2021). Major growth drivers include power generation, communications, banking and finance, transport, and construction sectors**. In addition, the 2020-21 growth target is higher than the latest revised projection of 4.3% for fiscal year 2019-20, according to official data.
- **We expect Myanmar's economy to recover to close to its medium-term growth rate of 6% by next year, supported by rising investment and fiscal spending – through stimulus measures and election spending.** FDI inflows to Myanmar grew 6.3% YoY in the first seven months of 2020, driven by the oil & gas industry. Looking ahead, Myanmar would continue to attract FDI to a wider range of sectors, including the financial sector as it continues to liberalize that industry, tax reforms, improving electricity supply, and other policies to promote investment.

Vietnam's exports hit new high at USD2a6.5bn in August; promising growth outlook

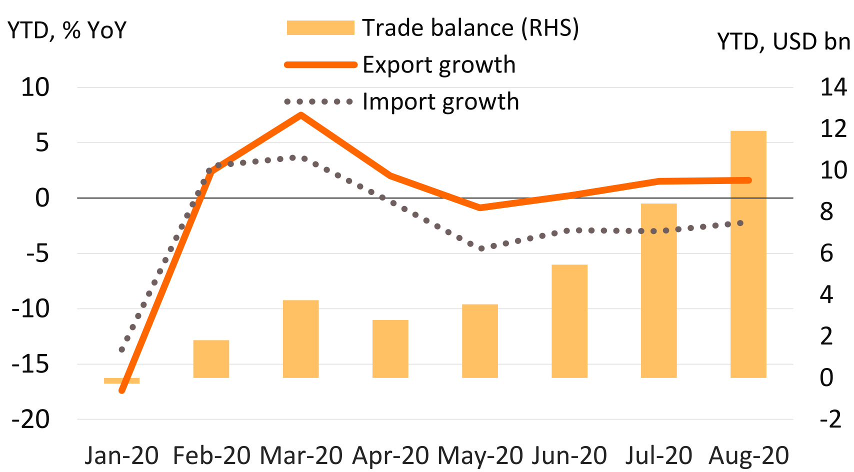
Vietnam's exports



Growth of Vietnam's major export products



Vietnam's trade statistics

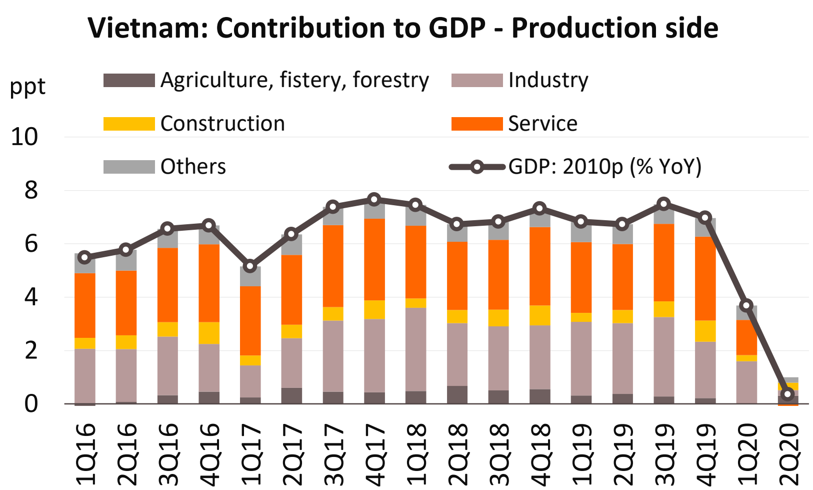


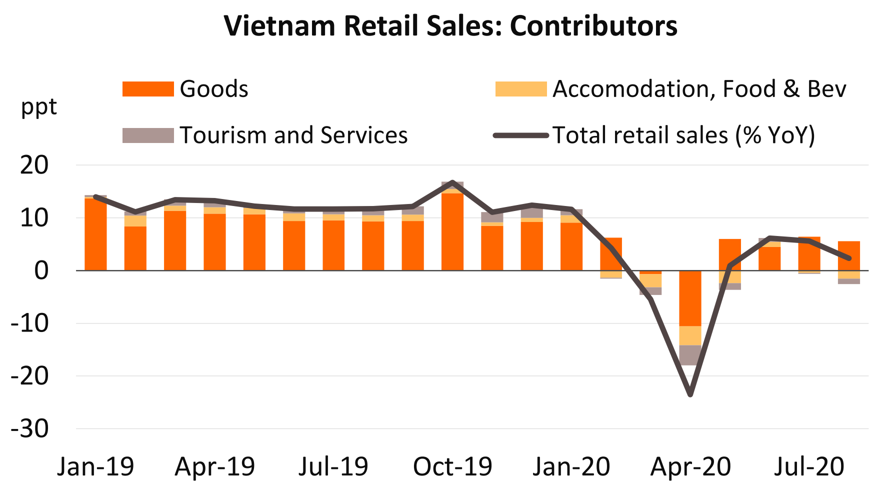
Source: General Statistics Office, CEIC, Krungsri Research

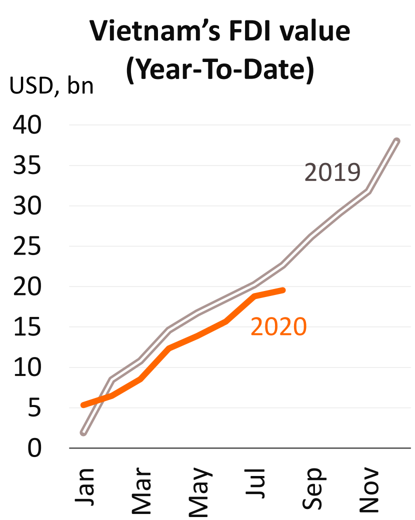
Krungsri Research's view

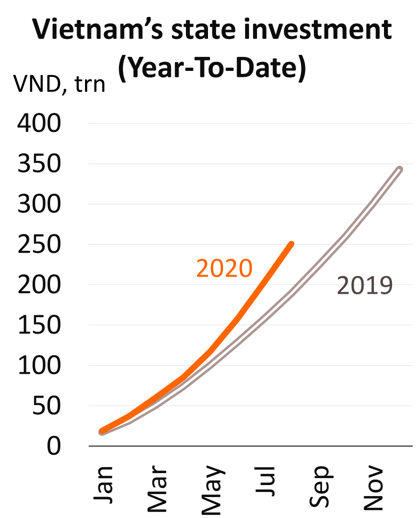
- Vietnam's exports grew by 6.5% YoY to a new-high of USD26.5bn in August. In the first 8 months of the year, total export value rose 1.6% YoY to USD174bn. However, imports fell 2.2% YoY in August. This led to a larger trade surplus of USD11.9bn – a new high for the country.
- **For the rest of the year, we expect Vietnam's exports to continue to grow supported by strong competitiveness and the opportunity to export a wider range of products to more countries under several FTAs, including the CPTPP and EVFTA.** Exports of major product groups are projected to rise, including computer & electrical products (13.6% of total exports), machinery & equipment (7.0%), and wood & related products (4.0%). These product groups would see strong growth premised on improving economic conditions in the major export destinations. The US and China are Vietnam's largest export markets, partly because they have already expanded their supply-chain networks to various sectors in the country. However, the report by the US Department of Treasury that Vietnam made large foreign currency purchases in 2019, suggests there could be downside risk to if Vietnam is named a currency manipulator.

Vietnam may halve 2020 target growth range to 2.0-2.5% given weak consumption and modest recovery of exports









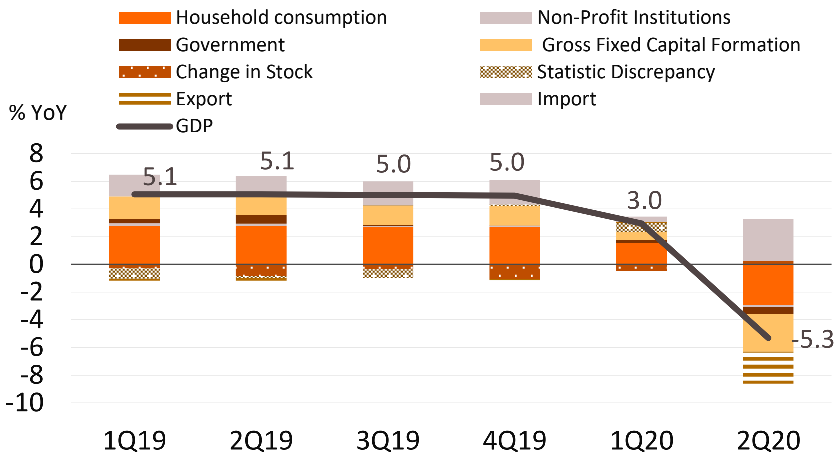
Source: General Statistics Office, CEIC, Krungsri Research

Krungsri Research's view

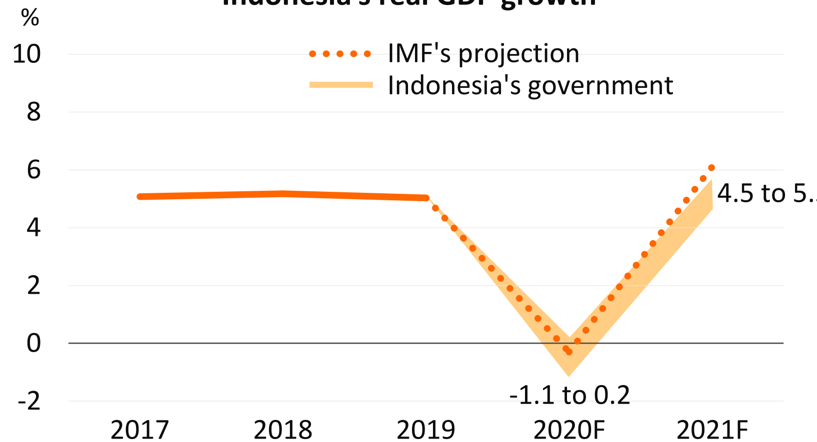
- Vietnam's government may downgrade its economic growth target range for this year to 2-2.5%, according to Nikkei Asian Review. In May, the government had vowed to deliver over 5% growth this year.
- **We maintain a positive outlook for Vietnam, with growth projection of 2.0-2.5% for 2020. Growth would be supported by higher exports and FDI inflows, premised on (i) strong competitiveness, (ii) the several FTAs attracting more FDI, and (iii) diversification of potential sectors. However, to meet the current official target of 5.0% growth, 2H20 GDP would have to grow by at least 8.2%, which is challenging given still-weak domestic consumption and a modest recovery in exports. However, GDP growth could reach +3.2% in 2H20, which would take full-year growth to around +2.5%.**

Indonesian government adjusts 2020 target GDP growth to -1.1% to +0.2% due to larger downside risks

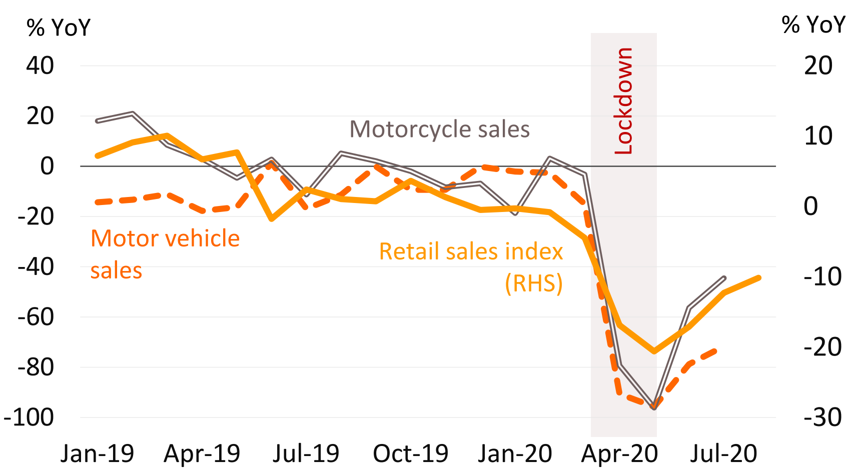
Indonesia: Contribution to GDP - Expenditure side



Indonesia's real GDP growth



Indonesia's consumption spending indicators



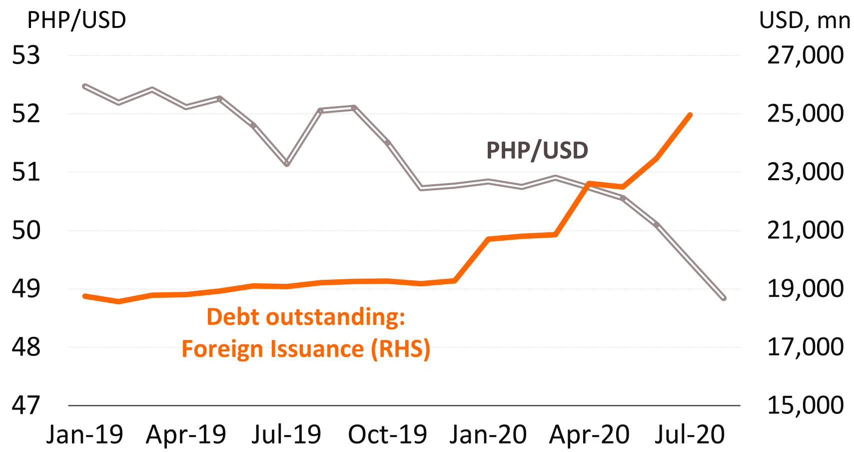
Source: IMF, Bank Indonesia, Central Bureau of Statistics, CEIC, Krungsri Research

Krungsri Research's view

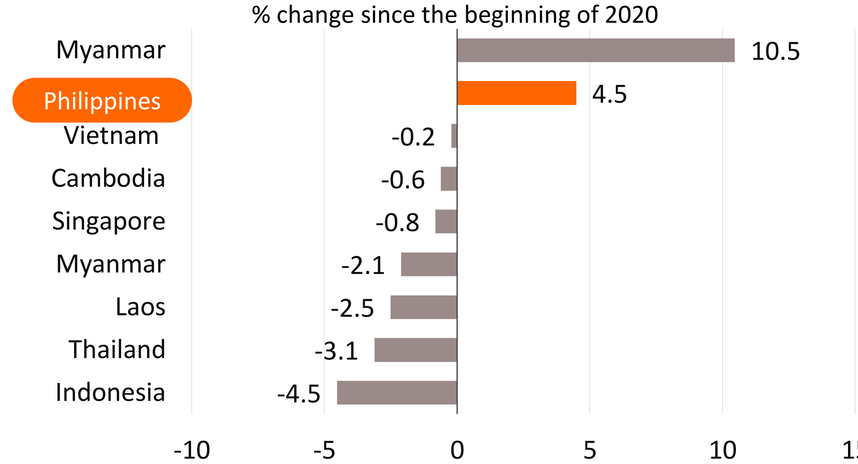
- **Indonesia's government has revised down 2020 GDP growth forecast to between -1.1% and +0.2%, from -0.4% to +2.3% previously. It also projects 4.5% to 5.5% growth for 2021.**
- **We expect Indonesia's economy to enter a recession in 3Q20 and full-year GDP growth could be in negative territory.** In 2Q20, the economy shrank by 5.3% YoY, the first contraction since the Asian Financial Crisis. However, we still see weak domestic consumption – the largest component at 57% of GDP – in 3Q20. In addition, the situation would likely deteriorate for the rest of the year as the country has reinstated lockdown in Jakarta since 14 September, which would dampen consumption spending. **This will partly offset the positive effect of government stimulus packages**; the government has spent IDR151.2trn as of the 1st week of August, only 21.7% of the total stimulus packages. But still-high unemployment – and the extended period of unemployment – will continue to dampen the consumption-dependent economy in the coming months.
- **Though Manufacturing PMI improved, it was mostly driven by pent-up domestic demand since reopening. External receipts, including exports, tourism, FDI, and remittances, are expected to decline further** as the extended pandemic continues to hurt the global economy. July exports contracted by 9.9% YoY. In 1H20, FDI inflow to Indonesia fell by 38.8% YoY to USD8.8bn (or 1.7% of GDP). The country's plan to resume inbound tourism is also delayed to 2021 as Bali – the pilot tourism destination to reopen – has announced it would postpone reopening to next year.

Philippines: Strong peso will tame inflationary pressure; more room to ease monetary policy

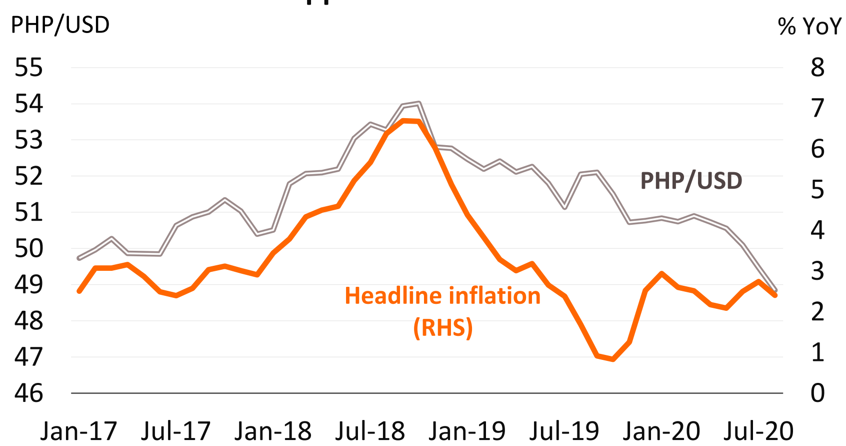
Philippines: Outstanding Debt and PHP/USD Rate



Local currency movements in ASEAN (end-August 2020)



Philippines: FX and Inflation



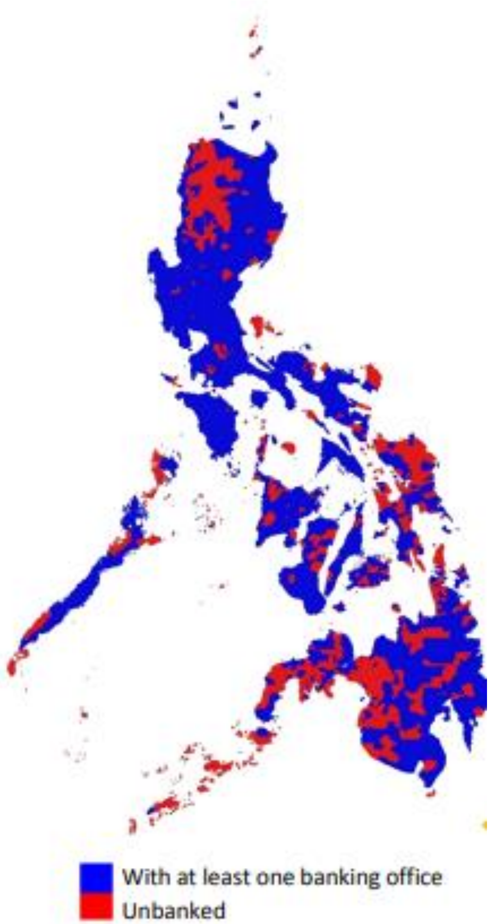
Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, CEIC, Krungsri Research

Krungsri Research's view

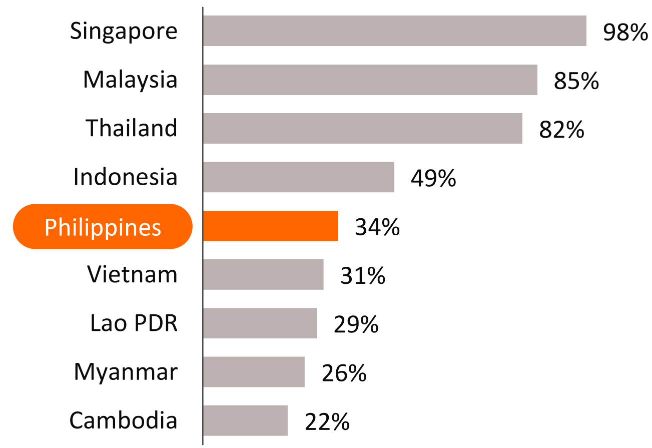
- **The Philippine peso has appreciated by 4.5% this year**. The key reason for that is because **the government has been issuing foreign currency bonds to finance its fiscal stimulus programs this year**. The other reason is **the weakening USD.**
- **In addition, inflationary pressure remains benign in the country.** Inflation moderated to 2.4% YoY in August from a 6-month high of 2.7% in July. Looking ahead, we expect inflation to remain within the BSP's target of 2%-4% the rest of the year, given still-weak demand and low cost-push inflation pressure given the strong peso would reduce cost of imports.
- Given the strong peso and low inflationary pressure, there is room to ease monetary policy to reduce the impact of the deep economic recession the country is experiencing. BSP governor Diokno recently said the central bank made a prudent decision to hold interest rate at 2.25%. **We expect the central bank to ease monetary policy by introducing more instruments, including a targeted policy, and another 25 bps rate cut.**

Philippines to launch *PhilSys* national ID with biometric information, improving access to the unbanked

Map of bank locations and the unbanked in Philippines



Population with bank accounts* (%, age 15+)



Krungsri Research’s view

- Authorities recently announced the Philippine Identification System (*PhilSys*) – an ID that uses biometric technology and contains personal details for identification. That is expected to be implemented in 4Q20.
- **In the next few months, *PhilSys* could help to facilitate the rollout of welfare benefits to citizens affected by the COVID-19 impact. Over the longer term, we see the *PhilSys* could play a key role in transforming the Philippines into a digital economy. The ID would also allow greater financial inclusion of the unbanked,** because the ID would be accepted as proof of identity through the biometric information, instead of the documentary method. The BSP targets to increase financial access of adult Filipinos from 34% of the national population to 70% within three years. According to data from the Global Findex database (2017), the percentage of unbanked in the Philippines is the median in ASEAN. Among the population aged 15+ with no bank account, the biggest reason is because financial institutions are too far away (29%) and they do not have the necessary documentation (32%).

Note: * data from Global Findex database (2017)
Source: Bangko Sentral ng Pilipinas, World Bank, CEIC, Krungsri Research

KRUNGSRI RESEARCH

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